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Dear Sir/Madam

Re: "Future of Australia's Aviation" Issues Paper

Perth Airport is Australia's fourth largest airport and serves as Australia's Western Hub, connecting the people of Perth and Western Australia to the rest of the nation and the world.

During the Covid-19 pandemic, Perth Airport has consistently been Australia's busiest major airport in terms of aircraft movements and passenger numbers, primarily due to the WA resources sector's heavy dependence on FIFO worker flights.

This is despite a collapse in international passengers of around 99 per cent and an equally dramatic 97 per cent plunge in interstate passenger numbers. Regional passenger numbers fell by 45 per cent, held up primarily by FIFO workers.

The impact of international, interstate and, for a time, intrastate travel restrictions on Perth Airport's finances was both swift and brutal.

Covid-19 was the major contributor to a fall in Perth Airport's FY20 EBITDA of around 45 per cent. For FY21 we are predicting that EBITA will be more than 75 per cent below the FY19 result.

We are also predicting no meaningful uplift in international passenger numbers in FY21. While Western Australia's interstate border restrictions have been eased in recent weeks, they do not cover passengers from NSW and Victoria which account for almost two thirds of our domestic passenger market. There is also no guarantee that the restrictions will not be reintroduced with little or no notice, making interstate travellers reluctant to book flights.

It is against this backdrop that Perth Airport welcomes the opportunity to comment on the Future of Australia's Aviation Issues Paper.

Perth Airport broadly endorses the submission from the Australian Airports Association (AAA), particularly in relation to issues facing major airports, but provides the following specific comments for consideration.

Perth Airport Comments - General

Perth Airport welcomes the discussion paper's up-front acknowledgment that the "public health measures necessary to mitigate against COVID-19 ... affect aviation more than most industries." As your paper notes, this impact has been "devastating for Australia's aviation sector."

Aviation in general, and airports in particular, were the first to be hit by the impacts of Covid-19 restrictions. More importantly, aviation (and airports in particular) are likely to be one of the last industry sectors to emerge from Covid-19 prior to a slow and elongated recovery period.

Perth Airport concurs with widely reported assessments that aviation will take four years or more to recover to pre-Covid levels of activity.

The discussion paper summarises the support measures provided to date by the Federal Government.

It is a fact that the majority of this financial support has been directed to airlines, not airports.

Perth Airport has welcomed the support offered by the Commonwealth through JobKeeper but notes that this support is being scaled back and is not expected to run past March 2021.

Given the discussion paper's acknowledgement of the special circumstances and challenges facing aviation, and airports in particular, it is essential the Commonwealth explore options for extending JobKeeper for the aviation sector beyond March 2021.

Airports have already lost a significant number of positions which are critical to their current operations and future growth. This has already resulted in an exodus of skills and experience from the sector. This will only be exacerbated if the JobKeeper funding support is withdrawn prematurely.

While Perth Airport appreciates the Commonwealth needed to move quickly in response to the pandemic outbreak, the lack of consultation with the aviation sector (and airports in particular) was a major concern and issue. For example, the decision to pay domestic security charges was a prudent move. However, security charges are incurred by airports, not airlines. The government's decision to make these payments to airlines caused significant issues for airports, who were forced to carry the costs. Similarly, the government's decision to subsidise airlines for a basic interstate network was more than justified to keep the nation connected. However, this decision added cost and complexity for airports, who were required to continue to provide terminal and airfield services at a financial loss, with no corresponding financial support from the Commonwealth.

Perth Airport strongly recommends that airports should be consulted on future support measures to ensure both effectiveness and equity.

Covid Objective 1 - Maintaining essential air connectivity.

Western Australia is at a geographic disadvantage, being distant from the lucrative east-coast "golden triangle" of routes (SYD-MEL-BNE). Trans-continental flights have reduced in frequency (-70%) and the aircraft have been down-graded, with 99 fewer seats per flight.

The Commonwealth's support would be most effectively used to ensure trans-continental air access is recovered to pre Covid-19 levels.

Western Australia also faces significant challenges on its intrastate network, given the size of the State's land mass and the dispersion of our population. Regional Western Australians, particularly those in the more remote locations, are heavily dependent on aviation services. Even prior to Covid, they faced high airfares and less than ideal service levels. Indigenous communities, in particular, in remote Western Australia would face additional disadvantage if aviation services were to be reduced.

Regional routes in Western Australia will require continued State and Commonwealth support.

Covid Objective 2 - Preserving critical aviation capacity

In addition to rebuilding interstate and intrastate capacity, Australia will need to invest significantly in re-establishing international connections and attracting international carriers back to Australian routes

Post-Covid, international airlines will have fewer and smaller planes in their fleets, meaning less capacity to dedicate to pre-Covid schedules, let alone to consider adding new routes.

International carriers will be risk averse and price sensitive.

Australia's major airports have previously highlighted a significant issue relating to international security charges.

While the Commonwealth has subsidised domestic security charges, it has to date refused to extend this support to international operations.

Airports are required by the Commonwealth to invest in and deliver a mandated level of security. The costs for this mandated security are passed through to airlines on a per passenger basis. The collapse in international traveller numbers due to Covid and the fixed costs associated with providing the mandated security services has seen the per passenger charge rapidly escalate.

Pre-Covid, Perth Airport was charging around \$7 per international passenger for mandated security, based on a predicted passenger flow of 2.1million. The collapse in passenger numbers saw that rise to around \$23 per passenger in May.

Perth Airport has now written to international carriers advising that the per passenger charge will rise to around \$110 in the New Year.

Even this figure does not truly reflect the costs being carried by Perth Airport. A true per passenger charge to cover the costs of government mandated security would be around \$195. Ultimately this will need to be recovered.

This is simply a reflection of the need to cover a fixed cost base from a rapidly dwindling number of passengers.

The significantly increased security charge will impact on international airfares at a time when both airlines and passengers will be particularly price sensitive and will therefore make Australia a less attractive destination for airlines looking to resume international operations.

The Commonwealth should re-consider this issue and commit to covering the cost of international security (including backdating existing shortfalls) until the post-Covid recovery of international aviation is well established and sustainable.

The Commonwealth should also extend the subsidy of domestic security charges into 2021, potentially drawing on the AAA proposal to cover the shortfall between costs and charges received from passengers as passenger numbers slowly increase.

When considering scaling back of any of its support measures, the Commonwealth should consider carefully the entire aviation sector at a national level as recovery on the East coast is likely to occur at a faster rate than on the West coast.

The Commonwealth should also provide at least 3-6 months notice of any changes for certainty and planning. This is particularly crucial for international carriers.

The Commonwealth should also consider what additional incentives it will need to provide to attract international airlines back to Australia as a priority destination, rather than have them allocate capacity to other destinations.

Looking at the unique challenges faced by Perth and Western Australia, Perth Airport has proposed a \$40million Aviation Recovery Fund and has committed \$10million of its own funds to this purpose.

The Commonwealth must be prepared to commit funding to these efforts and be mindful that Western Australia, given its unique challenges, will require more than just a simple population share of available funding.

Covid objective 3 – maintaining supply lines for air freight exports and imports

Perth Airport has welcomed the support provided by both the Commonwealth and WA governments for continued freight services.

This has not only kept vital goods and revenue earning exports flowing into and out of our State, but it has also helped keep a number of international carriers engaged in Perth. These ongoing relationships will be vital to rebuilding international capacity into Perth.

The Commonwealth should remain committed to providing on-going assistance to freight services into 2021.

Reducing the regulatory burden

Perth Airport welcomes the Commonwealth's interest in ensuring the current system of regulation remains effective, efficient and relevant, particularly given the challenges posed by Covid-19.

In particular, we welcome and endorse the paper's statement that "regulations should also not unnecessarily restrict airport operators from accessing commercial opportunities (e.g. unnecessarily preventing airport operators from diversifying their revenue streams.)"

Perth Airport echoes the concern of the AAA in relation to any moves to devolve regulatory responsibilities from the Commonwealth to the States. Covid-19 has seen States take an ad hoc approach to border controls and other measures, placing greater emphasis on parochialism over national consistency and economic efficiency. Aviation in Australia needs a consistent, long term approach to regulation to encourage investment and promote growth.

Airspace management

While Australian aviation benefits from a consistent national regulatory approach, the Commonwealth needs to remain mindful that each major airport operates in a different urban/geographic environment. Decisions made about airspace and slot management in Sydney do not necessarily reflect the needs, challenges and circumstances of other major airports and the States they serve. Perth Airport welcomes the statement that the Commonwealth does "not advocate regulating slot management at other major Australian airports."

Due to the critical importance of the resources sector to the Western Australian and national economies, Perth Airport faces unique challenges in managing demand associated with FIFO flights. Given expected growth in the resources sector and the planned development of a new second parallel runway, Perth Airport will need agility and flexibility in the Commonwealth's approach to the management of airspace.

International

While the discussion paper raises the issue of cabotage, it does so in a manner which indicates there is little appetite for this policy move at a Commonwealth level. While accepting this, Perth Airport believes the Commonwealth should not completely shut the door to cabotage as a means of achieving its policy goals. For example, the Commonwealth could consider cabotage rights for domestic routes for long-haul operators (eg. European carriers via Perth and US carriers via Brisbane) as new aircraft technology makes it possible to shift from traditional hubs of Asia to an Australian alternative.

In relation to the desire to liberalise air access arrangements, the Commonwealth should consider an ASEAN Open Skies Agreement. For Air Service Agreements, the Commonwealth needs to ensure equitable distribution of traffic rights across States, ensuring there are enough traffic rights to permit a minimum daily service at each Australian major capital city airport. Any traffic rights or airline alliances granted should come with a requirement for country-wide growth.

Facilitating new and emerging technologies

Perth Airport welcomes the development of a national whole of government approach in emerging technologies. Our interaction with CASA and Airservices on drone/autonomous vehicles has been met with positive comments and a willingness to work together to find a solution. PAPL would be very keen to be part of any future technologies or trials that are being considered.

Perth Airport also believes that the increased use of biometrics will deliver both a security benefit and also a public health benefit (by reducing human touchpoints in the passenger journey). The increased use of biometrics will also open the door to the potential development of Common Departure Lounges, which again will provide a security benefit along with significant cost savings to both airlines and airports. The Commonwealth should ensure there is a framework in place to allow airports to move in this direction as quickly and as seamlessly as possible.

Safe, secure and environmentally sustainable aviation

Perth Airport is committed to operating a safe, secure and environmentally sustainable airport.

As mentioned in our introductory comments, Perth Airport believes that open and timely engagement and consultation with airports is the key to ensuring regulatory changes proposed by the Commonwealth are cost-effective and actually deliver the desired outcome.

This is particularly so in relation to matters of safety and security. Recent changes in mandated security requirements have been announced with little, if any, consultation, leaving airports with the task and cost of implementing these changes in unrealistic timelines. There appears to be little understanding of the commercial realities of recovering costs from airlines (via a per passenger charge) and the challenge this poses for airports even before factoring in the impact of Covid on the airlines' ability/willingness to pay.

To be clear, there needs to be genuine consultation on proposed changes before, not after, they have been endorsed by Cabinet and announced to the public.

All sectors of aviation have been adversely affected by Covid and associated drops in revenue, current funding models that are used by CASA and Airservices are not dissimilar to that of airports.

Covid has demonstrated the need for all aviation business to have a well-founded understanding of their minimum fixed overheads to maintain safe operations and to remain flexible during unforeseen events. Moving to a fixed, non-passenger related levy would be difficult to implement and ultimately would still have to be linked to an assumed amount of movements or risk under/over-charging industry

All airports should be mindful of their responsibilities in relation to environmental sustainability. The Commonwealth must be mindful, however, that in a Covid-impacted environment, the financial ability of airports to respond to new regulations or requirements in this area is severely limited.

Perth Airport welcomes the Commonwealth's clear statement that it sees promoting an "environmentally sustainable aviation sector" as one of its key roles.

This statement, however, is not consistent with the approach taken by the Commonwealth and its Airservices Australia agency in relation to the management of PFAS from the historic use of firefighting foam on airport estates. Perth Airport, like all Australian airports, remains frustrated at the lack of action from Airservices Australia to address this issue in any meaningful way.

Perth Airport would expect a strong and clear statement in any strategy relating to the future of aviation about the Commonwealth's intention to act to remove or rehabilitate PFAS contaminated soils, ground water or surface water on airport estates. This should include timelines and funding commitments.

Of particular concern to Perth Airport is a reference in the discussion paper that "Australia could potentially look at the curfew system at major airports." If the discussion paper is saying the Commonwealth is considering a review of curfews that currently apply to major airports with a view to either easing or removing them, then it is of no direct interest to Perth Airport.

If, on the other hand, the Commonwealth is signalling to the public that it is actively looking at the need to introduce similar curfews to other major airports, that is a significant and worrying development.

The final strategy should clarify this point or, preferably, remove it.

The use of curfews is a blunt instrument which would have a devastating impact on Perth Airport and on the Western Australian economy. As noted previously, Western Australia's economy is heavily reliant on the FIFO-based resources sector. FIFO flight departures are concentrated in an early morning peak period to ensure the economically efficient operation of project sites. Any move to restrict flying times will have an immediate and significantly detrimental impact on the resources sector.

A curfew would also hit international travel to Perth and would result in a loss of services and connectivity as Perth Airport is a slot taker, not slot maker when it comes to international flights.

A 2015 report, "Perth Airport Night Time Curfew — Estimated Costs for Regional and National Economies", found that Western Australia would suffer a \$46.1 billion economic hit and the loss of 27,000 jobs up to 2040 if an airport curfew was introduced.

Perth Airport believes that vague references to curfews in the final strategy will only raise false expectations in the community and will put at risk aviation investments such as the \$520million Perth's New Runway project.

Greater local decision making: federally leased airports

As noted above, Perth Airport would have concerns with a widescale devolving of powers to State or local governments as it would bring ad hoc decision making and inconsistency across jurisdictions. This would therefore result in a significant increase in the regulatory burden.

One move Perth Airport would encourage would be for a streamlining of the approval of various environmental management plans (e.g. PFAS Management Plans) which have been listed as conditions for approval for a Major Development Plan.

Currently these plans must be sent back through the somewhat inefficient processes of the Department of the Environment (DAWE). Perth Airport believes these plans should be submitted to the environmental offices within the Department of Infrastructure (DITRDC) for approval. This would bring about more-timely, more consistent, and more informed decision making as it would draw on the local expertise of DITRDC environment officials. This would not preclude the DITRDC officials from seeking assistance from DAWE where deemed necessary.

There are two additional simple yet significant actions the Commonwealth could take streamline regulation of federal leased airports:

1. The trigger point for an Major Development Plan is currently \$25million. This captures almost every project planned at an airport. A more realistic figure would be \$50million, or \$80million for a non-aviation project.
2. The public consultation period for a Major Development Plan (MDP) is currently set at 60 working days. This period is fixed regardless of whether the project is of an aviation or non-aviation nature. While Perth Airport supports public engagement, this fixed period adds costs, complexity and time delays. For example, Perth Airport's plans to build a multi-storey carpark on the site of its existing carpark required 60 working days of public consultation, despite there being little or any consequence for the broader community. Perth Airport does accept that the community has a greater interest in projects which may impact on aircraft noise levels. Perth Airport believes the public comment period should be reduced to 30 working days for all non-aviation related MDPs and for any aviation MDP that does not have an impact on aircraft noise levels or airspace management. The public comment period for an Airport Master Plan should remain at 60 working days.

Perth Airport thanks the Department for the opportunity to comment on this discussion paper and looks forward to continuing discussions on the matters covered.

Should you require any further information, please contact our General Manager Corporate Affairs,


Kevin Brown
CHIEF EXECUTIVE OFFICER


